

**2002 SEGIR-Financial Services Annual Review Report**  
**Contract #: PCE-I-00-99-00009-00**

**Bank Training Courses in the Russian Federation**

**Task Order No.:** 801  
**Start Date:** September 20, 1999  
**Completion Date:** April 18, 2002 (extension requested through June 19, 2002)  
**Authorized Amount:** \$300,000  
**Obligated Amount:** \$300,000

**Purpose of Task Order:**

The purpose of this task order is to conduct training for select Russian banks to provide them with the skills and knowledge necessary to strengthen their risk management practices and lend to SMEs on a safe and sound basis. This training program will help prepare banks that have been chosen to participate in the DCA loan guarantee program and supports the USAID initiatives in accounting reform and bank supervision strengthening. This task order contributes to the fulfillment of the E & E Bureau's strategic objective 1.4, which focuses on developing a more competitive and market-responsive private financial sector and E & E's strategic objective 1.3 focusing on accelerating development and growth of private enterprises including banks and those that benefit from the improved financial services and available credit facilities.

**Approach:**

Under this program, DAI has assembled a series of complimentary courses that include:

- International Accounting Standards (IAS)
- Risk Management (Including Asset Liability Management)
- Bank Exec International
- SME Credit and Lending ("Financing the Growing Business")
- Problem Loan Management

The IAS course provides participants with an understanding of how to understand both bank and enterprise financial statements that are prepared according to IAS compliant standards. The course also provides an overview of financial analysis that is helpful for understanding the SME Credit and Lending course. The Risk Management course provides participants with the knowledge and tools necessary to manage each of the key banking risks in a comprehensive and coordinated manner. Participants acquire an understanding of the trade-offs involved in meeting performance objectives and meeting prudential requirements for safety and soundness. The Bank Exec International course is a computer-based simulation program that provides participants the opportunity to apply their risk management skills in a simulated banking environment. This program is ideal for bank managers and decision makers that are responsible for interacting with other banking departments to achieve the strategic goals of a bank.

SME Credit and Lending course, Financing the Growing Business, provides the techniques and tools necessary to make loans to SMEs in transition economies. The tools and techniques covered in the course include customer relationship management, business life cycle analysis, breakeven analysis, financing growth, financial statement analysis, cash flow analysis, and loan structuring. This course

integrates the combination of skills and knowledge a business lender needs to make sound, well-informed lending decisions and reduces the credit risk to the bank. The Problem Loan Management course covers strategies and techniques for early detection of problem loans, effective loan monitoring, and effective determination and implementation of rehabilitation and workout strategies.

**Project Summary and Status:**

Upon completion of the task order, DAI will have conducted three sets of bank training courses. The first set was delivered to Far Eastern Bank in Vladivostok in July and August of 2000, the second was delivered at BIN Bank in Moscow and the third set for four banks in Moscow is scheduled for April and May 2002.

Far Eastern Bank was selected to receive this technical assistance because it is one of the most progressive banks in the Russian Far East, and is one of the few local banks to survive the Russian financial crisis. The first course on IAS provided Far Eastern Bank with a basic knowledge that prepares them for the eventual adoption of IAS by Russian banks. The following week, DAI conducted the Problem Loan Management course that was particularly critical to Far Eastern Bank given the risky lending environment in Russia, and the Russian Far East in particular. During the third and fourth weeks, DAI conducted the Risk Management course followed by the Bank Exec International simulation. The Risk Management course provided participants with a framework and set of tools to manage the main areas of banking risk in a comprehensive and coordinated manner. The Bank Exec International simulation provided the participants with the opportunity to apply the knowledge learned from the Risk Management seminar in a simulated banking environment. The participants in these courses included Department Managers from a number of different areas within Far Eastern Bank. After the seminars, each Department Manager had a better understanding of how their decisions influence other areas of the bank, and the overall performance of the bank.

BIN Bank was identified by the USAID Mission in Moscow to receive the training on "Managing Problem Loans," which was provided to approximately 20 bank personnel. Comments at the end of the course suggested continuation of such courses from USAID.

**Lessons Learned:**

Course evaluations indicate that the courses were well received by the participants. One of the most appreciated aspects of the courses was the use of practical exercises and case studies. In addition, the combination of the Risk Management and Bank Exec International simulation proved to be a very effective combination for teaching bankers how to think about managing a bank in strategic terms. An effort should be made to always offer these two courses together. The main criticism concerning the training program focused on the IAS course. Participants felt this course was not practical, as borrowers are not producing IAS-compliant financial statements.

Russian commercial banks continue to play a relatively minor role in the country's economic development as indicated by commercial bank loan to GDP and deposit to GDP ratios of below 10%. Providing financing to SMEs is a potentially profitable business for commercial banks and a critical component for the growth of private enterprises in Russia. However, commercial banks in Russia are reluctant to provide anything except short-term financing for SMEs. Thus, SMEs often do not have access to long-term credit needed for capital investment and growth.

The lack of progress in the development of the banking sector is due to a number of impediments, many of which must be solved by the Government and Central Bank. These include lack of legal infrastructure, lack of implementation of accounting standards, and bank ownership structures dominated by large industrial companies and the Government.

Nevertheless, there is a growing body of professional bankers that are eager to influence and make positive changes in the banking system. Helping these bankers acquire skills and knowledge in sound bank risk management and lending is an important contribution that USAID can continue to make to support these bankers and the development of Russia's banking system. In addition, this training is essential for any bank that is chosen to participate in the DCA loan guarantee program.

## **Statistical Assistance to the Government of Indonesia**

**Task Order No.:** 803  
**Start Date:** February 29, 2000  
**Completion Date:** September 30, 2002  
**Authorized Amount:** \$2,989,723.00  
**Obligated Amount:** \$2,200,000.00  
**Consortium Team Members:** Development Alternatives, Boston Institute for Developing Economies

### **Purpose of Task Order:**

The principal objectives of this activity under AERA are the:

- Improvement of quality, timeliness, and availability of Indonesian statistical data on the real sector, (both from BPS Statistics Indonesia and from other sources), including monthly industrial production indices. Improvement of the management and quality of BPS Statistics Indonesia and other Indonesian agency statistical processes (such as broadening and deepening the use of improved technology, and carrying out related improvements to BPS Statistics Indonesia processes (including increased use of Chromey procedures);
- Improvement in the quality of BPS Statistics Indonesia organization activities.
- Improvement in quality, accuracy, and user-friendliness of BPS Statistics Indonesia reporting, data dissemination procedures, and interaction with clients, as improved statistics are worthwhile only if they are used; and
- Improvement in the sampling frame available to BPS Statistics Indonesia by better coordination among the economic census, the social economic survey, the labor force survey, etc. This activity is expected specifically to improve the quality of small area statistics.
- Improvement of the quality, timeliness, and availability of Indonesian price index data, particularly for consumer, producer and trade-related price indices;
- Improvement in the timeliness, accuracy, and availability of GOI statistics regarding unemployment.
- Improvement in the timeliness, accuracy, and availability of GOI statistics for agriculture, particularly regarding food statistics.
- Improvement in small area statistics.
- Increased use of Chromy and other sampling techniques
- Such other/substitute objectives and sub-objectives as Contractor, the USAID COTR, and BPS Statistics Indonesia shall jointly agree upon.

### **Approach:**

- **Task One- Real Sector Data, Including Industrial Production Data:** This task provides direction and guidance with respect to the major data improvement activity to be carried out by Contractor, improvement of real sector data collection activities, objective one of the proposed contract.
- **Task Two -Technical work improving the internal management and processes of BPS Statistics Indonesia:** This task addresses Objective 2 of the proposed contract, thinking about BPS Statistics Indonesia organization and management.
- **Task Three - Providing an Improved Sampling Frame on a Reoccurring Basis:** This task addresses objective 2 of the proposed contract, providing an improved sampling frame for Indonesian statistical activities.
- **Task Four - Improving BPS Statistics Indonesia Relationships with the Users and Clients of its Statistical Operations:** This task addresses objective 3 of the proposed contract, improving BPS Statistics Indonesia relationships with the users and clients of its statistical operations.
- **Task Five - Producer/Wholesale Price, Consumer Price, and Trade-Related Price Statistics:** Assist GOI in development of Producer/wholesale price statistics that are key to making the system of Indonesian macroeconomic statistics work.

- Task Six - Labor Market Statistics: Work with the BPS Statistics Indonesia to design a survey instrument that would provide timely and accurate labor market statistics to policymakers and the public.
- Task Seven - Agricultural Statistics: Assist GOI in gathering better data in the next Census of Agriculture in the near term. These are needed to design improved programs to address related issues.
- Task Eight - Social Statistics: While not originally stated in the RfP, assistance to BPS in this area is needed at this point and would be highly effective.
- Task Nine - Formal Training: Also omitted from the original RfP, this formal training in the form of US based workshops will supplement efforts for institution building cutting across all the above tasks.

**Lessons Learned:**

In light of the events of September 11<sup>th</sup>, all short-terms consultancies were cancelled. In addition, the chief of party was evacuated from Indonesia during the months of October and November. Nevertheless, many project objectives were achieved during this period because of local involvement and support from the BPS leadership. The success of the project, even in the absence of the expatriate project staff, indicates the important role which local staff plays in project activities.

## **Bolivia Rural Financial Services**

**Task Order No.:** 809  
**Start Date:** March 20, 2001  
**Completion Date:** January 19, 2004  
**Authorized Amount:** \$7,365,382  
**Obligated Amount:** \$1,000,000  
**Consortium Team Members:** ACCION International and Ohio State University (OSU)

### **Purpose of Task Order:**

The objective of the SEFIR project (RFS) is to expand financial services to rural and underserved markets in Bolivia. To achieve this objective, SEFIR will identify innovative initiatives in the market and determine ways to support them. It will facilitate the problem-solving undertaken by microfinancial institutions (MFIs) and other entities rather than to impose its own solutions. In addition, it will emphasize innovation, the development of the industry, and building local capacity wherever possible, rather than focusing on select institutions.

The structure for the project falls into three pillars:

- Pillar I Innovation and Expansion
- Pillar II Microfinance Industry Development
- Pillar III Policy and Regulation

Pillar I focuses on the design, testing and launch of new and/or enhanced products as well as the establishment of new points of service. Under Pillar II, the project will empower financial institutions and support entities by deepening and broadening the knowledge base in the industry through research, training, marketing, and the development of a credit reference system. Finally, through Pillar III, SEFIR will improve the policy and regulatory environment for microfinance institutions seeking to innovate and expand, as well as fortify the supervisory function of the relevant authority in its capacity to supervise and evaluate MFIs.

All three pillars will contribute to the successful realization of the five principles as identified by USAID for this project: 1) Encourage diversified rural financial services, 2) Reduce operating costs and enhance product value, 3) Continue Bolivia's successful model, 4) Support the existing movement toward rural areas, and 5) Collaborate with the Government of Bolivia (GOB) and other donors.

### **Approach:**

Under the task order, Team DAI will:

- Provide one international and one local long-term technical advisor;
- Provide international and local short-term technical experts;
- Provide training with international and local trainers; and
- Channel grant funding to microfinance institutions and other organizations.

DAI will provide:

- Technical assistance and training to rural finance service providers and other financial system participants in order to accomplish the objectives of the RFS Activity.
- Research, testing and introduction of new products and services which will improve financial service providers' ability to serve rural and urban under-served populations
- Support up to 50 percent of investment costs to encourage the opening of new financial service points in rural and underserved areas.
- Support to the Superintendency of Banks and other entities in developing the regulations and capacity to competently supervise microfinance institutions. This component will also support the legislative action needed to facilitate rural finance and the development of an all-inclusive system for credit referencing.

**Progress Summary or Status:**

Replacement of the Chief of Party was approved by USAID and the new COP, Fernando Prado, started in July 2001. The Project's Kickoff Start Up Conference in July, 2001 was a success. Claudio Gonzalez-Vega of Ohio State University's Rural Finance Department moderated the event and keynote speakers highlighted innovations in microfinance within Bolivia. Stakeholders were given the opportunity to contribute to the development of the SEFIR project agenda and objectives. An estimated 50 Bolivian MFI officials and authorities attended the event.

Work on the review of credit bureaus in Bolivia was done this past Summer by two consultants, one US and one Bolivian. Their work is ongoing and the feasibility study has been presented to the Superintendency for approval. Additionally, five local investors or shareholders have been identified and have expressed their willingness to invest in the Bureau of Credit Information, as required by law.

In November and December a stock taking activity was conducted. Claudio Gonzalez-Vega and Jorge Rodriguez-Meza from OSU, did an evaluation of the Bolivian macroeconomic situation and the trends of the financial sector. Additionally, Hillary Miller from DAI conducted an evaluation of the philosophy, trends, opportunities and threats of the international cooperation and other local entities supporting the microfinance sector, as well as lessons learned by the MFIs that have attempted to promote financial services in rural areas.

The importance of these evaluations was that they helped classifying the partner MFIs in two categories or tiers. Tier 1 entities (regulated MFIs) will be able to access technical assistance (T.A.) from SEFIR for training, new product development, and services expansion (e.g. new points of sale established), as well as direct access to the Grants Fund (FDM) to conduct pilot tests and be able to cover other fixed assets needs. Tier 2 non-regulated MFIs will be able to access T.A. and through a competition process could also access funding from the FDM. Recently, the Grants Fund Manual was drafted, encompassing best practices of DAI and Bolivian funding mechanisms. Follow-up work on this activity, including the formation of a grant review committee will take place in March of 2002.

In December 2001, our resident IT expert traveled to La Paz to begin work on *Leveraging Information Technology*. He has been working with individual MFIs to determine MIS needs and shortcomings, and in March 2002 a team of 4 consultants (US and Bolivian) will support 6 non-regulated MFIs so that they become able to report to the Bureau of Credit, as well as to establish strategic alliances with regulated MFIs.

Training support to MFIs by financing the attendance of their staff to local and international events was conducted on a regular basis during all these months, as well as other events oriented to elevating the image of microfinance in Bolivia.

**Lessons Learned:**

The economic, social and political situation of countries change rapidly, and it is very important to be flexible to these changes. Currently, there is not only a great need for serving the rural area, but also certain semi-urban underserved areas.

## **Former Yugoslav Republic of Macedonia Capital Markets Development Program II**

**Task Order No.:** 810  
**Start Date:** April 1, 2001  
**Completion Date:** May 31, 2002  
**Authorized Amount:** \$1,346,854  
**Obligated Amount:** \$1,346,854  
**Consortium Team Members:** PricewaterhouseCoopers

### **Purpose of Task Order:**

The task/work requirements and benchmarks contained in this Task Order are all designed to meet certain E&E Bureau Strategic Objectives as well as specified goals. This Task Order falls under the E&E Bureau's Strategic Objective 1.3, "Accelerated Development and Growth of the Private Sector." All work performed under this Task Order will be measured not only in terms of whether it meets the task/work requirements and benchmarks but also by how well it meets E&E Strategic Objectives and the overall Task Order objectives.

### **Approach:**

- Assistance to the Securities Commission: PwC and DAI will provide continued, comprehensive assistance to the MSEC with the overall goal of furthering its institutional development, and creating a strong and efficient regulatory scheme governing all aspects of the capital market.
- Assistance to the Macedonian Stock Exchange: The counterpart under this component of the Task Order is the Macedonian Stock Exchange (MSE). The overall goal of this component is to increase the operational integrity and commercial viability of the MSE.
- Development of Clearance, Settlement, and Depository System: Assistance to the MSE in creation of the Macedonian Central Securities Depository (MCSD), in conjunction with a Norwegian government-financed system development project responsible for creation the MCSD organization.
- Development of Investment Fund and Custodian Operations: Assistance to investment funds and custodians, including preliminary assistance with basic operating and reporting requirements.

### **Progress Summary or Status:**

1) Assistance to MSEC: Technical assistance and training commenced at the MSEC at project inception in November 1999. Project advisors have provided comprehensive training and documentation to MSEC staff in financial reporting & disclosure, market regulation, surveillance & monitoring, and enforcement & disciplinary activities. Considerable emphasis has been placed on institutional development, including the creation of internal staffing and procedural manuals, and MSEC reorganization along functional lines. The project reviewed all relevant financial laws and regulations, and in many instances, provided detailed commentary and recommendations on proposed legislation. Most notably, the latter include the Law on Securities (and amendments), the Law and Regulations on Investment Funds, the proposed Trade Companies Law, the Takeover Law, various Regulations on establishment of the MCSD, and on issuance of various securities, including RM Government bonds.

Progress has been excellent in terms of staff training and knowledge transfer in the areas indicated above. MSEC staff exhibit a working knowledge of international market practices, and are generally professional and enthusiastic in implementing regulatory reforms and market monitoring responsibilities. Nevertheless, the legal structure in Macedonia continues to be problematical, as does the project's working relationship with the MSEC Chairman and Commissioners. The latter have proven to be resistant to our efforts to provide policy guidance and support at the Commission level.

2) Assistance to the MSE: Our assistance to the MSE began in November 1999, and considerable on-going technical assistance has been rendered to the Exchange's management and staff. Comprehensive guidance and training has been provided on rules and operating procedures, market surveillance and compliance activities, and listing and public offering procedures and strategies. Early in 2000, the project team recommended implementation of a new electronic trading system, to replace the previous (largely manual) floor-based trading system which had been implemented in 1996. Our project assisted in defining technical requirements, reviewing system alternatives, and

ultimately, recommending installation of the (Slovenian) Ljubljana Stock Exchange (LSE) trading system. The LSE system was installed early in 2001 with substantial financial support from the Slovenian government. USAID's financial assistance was limited to some \$50,000 in hardware procurement.

Progress with the MSE has been substantial and positive throughout the project term. Our recommendation for implementation of a remote electronic trading system, coupled with the introduction of RM Government bonds, has resulted in a three-fold increase in trading activity at the Exchange. Significantly, this increase has been sustained in spite of the political turmoil from hostilities between the RM Government and Albanian insurgents in 2001. We note that these hostilities forced a 5-month evacuation of the project team to Slovenia during the conflict. For the past 9 months, our advisors have assisted both the MSE and MSEC (whose Chairman is the RM Minister of Finance) in preparing for cross-border trading between Macedonia and Slovenia.

3) Development of the MCSD: With the introduction early in 2000 of a Norwegian government central registry and depository project, our support to the MCSD was limited to an advisory role at the MSE. The MSE's management played a key role in the MCSD Working Group throughout the Norwegian project, which ended with successful installation of the new CSD system in November 2001. Our advisors monitored progress on operating procedures and organizational issues, and took an active advisory role in various Working Group meetings.

Progress has been excellent to date, particularly due to our productive working relationship with the MSE and the Norwegian development team. Clearing & settlement operations have worked well in the aftermath of the new system implementation, though problems continue at the registry level. Since Macedonian law requires all joint stock companies to transfer shareholder records to the MCSD, compliance with this requirement has been met with predictable resistance by certain enterprise managers. At this writing, some 30% of ownership records at the MCSD are blocked due to various shareholder disputes.

4) Development of Investment Fund and Custodian activities: Implementation of this Task Order element was scheduled for Autumn 2001, and was further delayed due to our evacuation from Macedonia from June to October 2001. An assessment of resources and capabilities through the remainder of our contract is under way, and it is hoped that preliminary assistance will be rendered prior to the expected project termination in June 2002.

#### **Lessons Learned:**

Two important lessons have emerged, beginning with the need for securing the commitment of local government officials to technical assistance objectives. The project's experience with the MSEC is a case in point: cooperation on staff training initiatives has been excellent for two years, while access to the Commission members has been almost nonexistent. The present MSEC Chairman has effectively restricted our advisory team to training and legal review activities. Since our Task Order also provides for "policy guidance" to the Commission, it has been difficult at best to deliver the high level guidance and support expected of the project team.

Secondly, capital market development should not be limited to localized institution-building objectives. Our assistance to the MSE has been received with enthusiastic cooperation, resulting in completion of virtually all Task Order deliverables. However, the relatively small market in Macedonia still lacks investment and liquidity, and we believe the solution to this chronic problem lies in programs designed to enhance regional cooperation. In particular, assistance should focus on strategies to encourage legal and corporate governance reform as a basis for technical development of sustainable markets. While larger enterprises can usually find growth financing in international markets, small and medium size enterprises are most often dependent on local investment sources. Regional cooperation can increase both liquidity and capital, and in turn, help strengthen and sustain local securities markets.



## **Development Credit Authority Training II**

**Task Order No.:** 05  
**Start Date:** June 21, 2001  
**Completion Date:** March 31, 2002  
**Authorized Amount:** \$95,915  
**Obligated Amount:** \$92,915

### **Purpose of Task Order:**

The purpose of this training is to familiarize USAID/Washington and Mission staff with the requirements and uses of the Development Credit Authority (DCA). Using course materials developed with the Office of Development Credit, deliver training and advice on how to pursue development projects funded through a credit mechanism under DCA guidelines.

### **Approach:**

- Develop a detailed agenda for each workshop.
- Develop general overview of DCA project process and case study materials, in hard copy and electronic form.
- Develop the criteria to measure the results of each workshop.
- Delivery of three workshops in Budapest, Washington, DC, and Miami.
- Report on feedback, suggestions for improvement based on the established criteria.

### **Project Summary or Status:**

The DCA team has completed the workshop materials, which have been approved by the Office of Development Credit. The first conference in Budapest was cancelled and rescheduled for March 19-21, 2002 in Rabat, Morocco. Workshops took place in DC on Nov. 28-30, 2001 and in Lima, Peru on Feb. 26-28, 2002. Based on course comments and evaluations, the course and course materials have been well received.

### **Lessons Learned:**

While this contract is funded by the Office of Development Credit in Washington, it is important to have mission buy-in and participation from the beginning. This allows the course details and logistics to be the most tailored to the participating missions.

Performance history information on the case study deals, and other deals if possible, should be presented in order to convince Missions to try to use this authority (i.e., provide a "demonstration effect" to USAID staff).

Minor changes should be made to the course material after each presentation and after the CTO has had the opportunity to review the evaluation reports. This helps to clarify points and to respond to participant suggestions. It may be beneficial to provide background reading in advance that could be posted on the Office of Development Credit's website.

The true lesson learned will be seen through an increased use of the DCA financing tool.

## **West Bank and Gaza Microfinance Review**

**Task Order No.:** 812  
**Start Date:** September 20, 2001  
**Completion Date:** April 19, 2002  
**Authorized Amount:** \$93,000  
**Obligated Amount:** \$93,000

### **Purpose of Task Order:**

To examine the impact of the Poverty Lending and Bank Lending programs on income, employability, and welfare beneficiaries. To assess the impact of USAID support on the institutional capacity of implementing partners (commercial banks and NGOs) in terms of management capacity, organizational behavior, and inclination to support the microcredit industry in the future; and to provide recommendations to USAID on how to improve future interventions and achieve optimal results in the microenterprise development arena in the West Bank and Gaza.

### **Approach:**

- Review of key documents, reports, financial statements, and program statistics;
- Assembly and review of key data on the poverty lending and bank lending programs and participating institutions;
- Design and implementation of a client survey to assess the impact of USAID-supported activities on final beneficiaries;
- Focus interviews with a sample of clients; and
- Key interviews with USAID officials, representatives of the four institutions implementing microfinance activities supported by USAID, and representatives of the implementing contractor, Chemonics West Bank/Gaza

### **Project Summary or Status:**

To date, no project activities have begun. This is due to severe constraints and delays caused by the turmoil in the region. The DAI team is scheduled to complete the evaluation during March-April 2002. A no-cost extension was given through April 19, 2002.

### **Lessons Learned:**

N/A

## **MSED Bank Training – Development Credit and Microenterprise Office**

**Task Order No.:** 06  
**Start Date:** September 28, 2001  
**Completion Date:** May 31, 2002  
**Authorized Amount:** \$214,192  
**Obligated Amount:** \$214,192

### **Purpose of Task Order:**

To introduce formal financial institutions to microfinance and provide direct technical assistance to promising selected partners in South Africa, Nigeria, and Honduras.

The broad training goal is to create common and shared knowledge base for senior managers and lending officers in partner financial institutions to enable them to upgrade their skills in banking.

### **Approach:**

For the MSED Training and Technical Assistance project, DAI will:

- Present a customized training course entitled “Designing the Microfinance Program”, translated as needed, targeting banks in South Africa, Honduras, and Nigeria that are considering going down market to develop a microfinance business.
- Coordinate the process for identifying and selecting banks in Nigeria for follow-on training by our senior commercial banking specialists.
- Coordinate the process for identifying topics and selecting banks in South Africa for targeted, intensive technical assistance and capacity-building; assisting them in making microfinance a profitable line of business through new credit analysis techniques, new product development, marketing, and improvements in efficiency, accounting, and reporting.

### **Project Summary or Status:**

To date, the DAI team has completed courses in South Africa and Honduras. Final dates for the Nigeria training have been set for the first week in April. A diagnostic report for follow-on activities in South Africa has been submitted to the CTO, Kathleen Wu.

The follow-on TA for selected South African Institutions and second training in Nigeria, will be completed after the initial “Designing the Microfinance Program” course is completed in all participating countries.

### **Lessons Learned:**

While this contract is funded by the MSED office in Washington, it is important to have mission buy-in and participation from the beginning. This allows the course details and logistics to be the most tailored to the local conditions.

There should be further consideration and control of the selection of participants by the mission (under this contract, respective missions were responsible for bank/participant selection. DAI did give guidelines for best-fit institutions and participants). Additionally, participants should be at the same skill level for the training. This can be done by clearly defining to the missions who and from what departments should attend the course based on the existing course outline.

While it was suggested that participants pay a small fee for the course, this was not done in South Africa. Compared to the Honduran participants who did pay a fee, the South African participants were much less committed to the five-day course period.

A less general course should be presented to each mission that is more tailored to local markets. While attempts were made in this regard for the South African and Honduran courses with case studies and additional information, this could be requisite to a future base course design.

Additional case studies can be created based on discussions with the mission and local key players on issues or current news before and during the course so participants feel the course is not purely academic or "out of date."

## **Ecuador – Poverty Reduction Program**

**Task Order No.:** 813  
**Start Date:** September 28, 2001  
**Completion Date:** September 29, 2003  
**Authorized Amount:** \$3,987,618  
**Obligated Amount:** \$3,084,000  
**Consortium Team Members:** Development Alternatives, Accion International, IRIS

### **Purpose of Task Order:**

Responsible for substantial initial implementation of USAID/Ecuador's Poverty Reduction Strategic Objective, including its Microfinance Sector Development Program (MSDP), IR1, as well as specific activities to support macroeconomic policy reforms, IR2. The principal counterparts are private sector MFIs (banks, savings and credit cooperatives, NGOs) for IR 1 and government agencies (e.g., Customs Authority, Internal Revenue Service) for IR 2. Quote from most recent Quarterly Report:

"The SALTO Project forms a central element of USAID/Ecuador's Poverty Reduction Strategy. Under this strategy, the activities of the SALTO Project have been designed to achieve two primary objectives:

Intermediate Result 1 (IR1), Increased Access to Microfinance Services, focuses on efforts to significantly expand access to microfinance services to a greater universe of microenterprise borrowers. Access to credit, particularly well-targeted microcredit, as well as savings products and other microfinance services, will allow poorer Ecuadorians to increase their annual income levels and at least partially recover from the severe recession of recent years. The microfinance sector activities scheduled under IR1 are designed to strengthen selected microfinance institutions (MFIs), to address regulatory, supervision and other policy issues that are critical to the development of the sector, and to strengthen other elements of the financial system infrastructure on which MFIs depend.

Intermediate Result 2 (IR2), Improved Macroeconomic Environment, concentrates on advancing a set of key macroeconomic reforms that are necessary for building public confidence in the government's management of public revenues and expenditures. Improved macro-stability should lead to more rapid economic growth, which indirectly will reduce poverty levels. Specifically, IR2 tasks are aimed at increasing government revenues (apart from petroleum sector income), developing a more transparent and comprehensive presentation of annual national budgets for public scrutiny and debate, and strengthening fiscal policy analysis capabilities. While these tasks relate to fiscal reform agendas, reforms in the financial sector or other structural reform areas may be added pending identification of high-priority requirements that could be addressed with SALTO resources."

### **Approach:**

IR 1: Increased Access to Microfinance Services: Implemented via three sub-IR activities:

- MFI Strengthening
- Facilitating the Policy and Regulatory Environment for MFIs
- Improvement in related Financial Services Infrastructure

IR 2: Improved Macroeconomic Environment: Implemented via three sub-IR activities:

- Increased Revenue Generation
- Improved Budget Transparency
- Improved Fiscal Analysis Capacity

### **Project Summary or Status:**

For the quarter ending February 28, 2002, the principal accomplishments are as follows:

- Approval of the Year One Work Plan, including tasks to be accomplished by February 28, 2002 (Phase 1) and September 30, 2002 (Phase 2);
- IR 1A: MFI strengthening: Substantial progress, culminating at end-of-quarter in a short-list of 15 MFI banks, cooperatives, and NGOs to become initial SALTO Project partners/recipients of intensive institutional strengthening support;
- IR 1B: Regulation and Supervision of MFIs: Phase 1 activities completed, including a report on policy impediments for MFI growth and a recommended plan of action for medium-term support for the Superintendency of Banks to regulate and supervise the MFI sector;
- IR 1C: Financial Services Infrastructure: Project resources in place to support analysis of needs and feasibility for a private credit reference bureau;
- IR 2A: Revenue Generated: Initial training and technical assistance program delivered to the Ecuadorian Customs Authority (Corporación Aduanera Ecuatoriana), and terms of reference established for initial technical assistance program for the Internal Revenue Service (Servicio de Rentas Internas);
- IR 2B and 2C: Improved Budget Transparency and Fiscal Analysis: Tasks pushed to next quarter per prioritization of SALTO activities;
- Project Management: All six (6) SALTO Project sub-contracts signed, and two sub-contractor Task Orders underway; TAMIS (automated Technical Assistance Management Information System) designed and in process of refinement; and staffing adjustment successfully made following unanticipated departure of long-term expatriate advisor.

**Lessons Learned:**

The SALTO Project is less than six months into implementation. Lessons learned will evolve as the project gains more experience.

## **Indonesia Local Government Finance**

**Task Order No.: 814**

**Start Date: March 11, 2002**

**Completion Date: June 14, 2002**

**Authorized Amount: \$335,606.50**

**Obligated Amount: \$335,606.50**

### **Purpose of Task Order:**

To analyze the strengths and weaknesses of the current system and develop a policy framework and strategy for enabling local governments to finance capital investments and to access credit markets or other non-budgetary sources of funds for this purpose.

### **Approach:**

The DAI/GFG team will conduct a study and produce a report on the current municipal finance policy framework. This overview will rely heavily upon the legal, financial, and regulatory analyses which will focus upon the supports and constraints that affect the capacity of local governments in Indonesia to finance their own capital investments in private markets. A strategy will be devised which will include a three- to five-year action plan timetable, with dates and proposed entities, and proposed coordination mechanisms to ensure follow-through and benchmarks. This strategy will detail the actions needed in each of the areas covered to strengthen the supports and overcome the constraints, and progress toward a responsible and effective system of local government finance. There will also be a discussion of alternative approaches that IFIs could consider in deciding how to provide financing support to decentralized local governments in the interim.

At the end of the project, the DAI/GFG team will hold a workshop to discuss measures for strengthening local government finance. This workshop will discuss ways to establish adequate central monitoring and financial reporting by LGUs—a key concern of some officials and precondition to widespread borrowing. The workshop itself will serve as a final opportunity for field testing the team's ideas, where donors and Indonesian counterparts contribute to the strategy to ensure its long-term effectiveness and applicability.

### **Project Summary and Status:**

This task order was recently awarded. DAI is in the process of mobilizing the technical team.

### **Lessons Learned:**

N/A